UNIT 6. FINANCIAL STATEMENT ANALYSIS:

LEARNING OBJECTIVES:

After studying the lesson, students will be able to:

- Understand the meaning of financial statements and their objectives.
- Identify the parties interested in the financial statements.
- Understand the meaning of financial analysis and its objectives
- Understand the parties interested in financial Analysis
- Analyse the limitation of financial analysis
- Prepare comparative Income statement and Position Statement.
- Prepare Common Size Statements
- Understand the tools of Financial Analysis.

SALIENT POINTS:-

- Analysis of Financial statement is the systematic process of identifying the financial strength and weaknesses of the firm by establishing the relationship between the items of the Balance Sheet and income statement.
- The information available from the Analysis, serves the interest of different sections like Management, shareholders, workers, creditors, government, Potential Investors, Economist and Researchers and Stock Exchange.
- Financial analysis can be External Analysis and Internal Analysis, Horizontal analysis and Vertical Analysis.
- External Analysis: when analysis is made on the basis of Published statements, reports and information then this is known as External analysis.
- Internal Analysis: This analysis is based upon the information available to the business only.
- Horizontal Analysis: This analysis is based on the financial statements of different years of the same business unit or financial statements of a particular year of different business units.
- Vertical Analysis: According to this analysis financial statement of the same period or different items of the same financial statements are compared.
- Comparative statements, Common Size statements, Trend Analysis, Ratio Analysis, Fund Flow Statement, Cash flow statement are the Tools of financial statement analysis.
- Comparative Statements: it helps in ascertaining change in the items of income statement and Position Statement of different years in terms of figures and percentage.

REVISED SCHEDULE VI OF THE COMPANIES ACT 1956
BALANCE SHEET AS AT……………….

PARTICULARS (1)	NOTE NO (2)	FIGURES AS AT THE END OF CURRENT REPORTING PERIOD (3)	FIRGURES ASA AT THE END OF THE PREVIOUS REPORTING PERIOD (4)
1. EQUITY AND LIABILITIES			
(1) Shareholders' Funds			
(a) Share Capital			
(b) Reserves and Surplus			
(c) Money received against share warrants			
(2) Share Applications Money Pending Allotment			
(3) Non-Current Liabilities			
(a) Long-term borrowings			
(b) Deferred tax liabilities(Net)			
(c) Other Long-term Liabilities			
(d) Long-term provisions			
(4) Current Liabilities			
(a) Short-term borrowings			
(b) Trade payables			
(c) Other current liabilities			
(d) Short-term provisions			
TOTAL			
II ASSETS			
(1) Non-Current Assets			
(a) Fixed Assets			
(i) Tangible Assets			
(ii) Intangible assets			
(iii) Capital work-in progress			
(iv) Intangible assets under development			
(b) Non-current investments			
(c) Deferred tax assets (net)			
(d) Long-term loans and advances			
(e) Other non-current assets			
(2) Current Assets			
(a) Current investments			
(b) Inventories			
(c) Trade receivables			
(d) Cash and cash equivalents			

(e) Short-term loans and advances (f) Other current assets			
TOTAL			

STATEMENT OF PROFIT AND LOSS (Rs. In…..)

PARTICULARS	NOTE NO	FIGURES FOR THE CURRENT RERPORTING PERIOD	FIGURES FOR THE PREVIOUS REPORTING PERIOD
I. Revenue from operations			
II. Other income			
III. Total Revenue (I+II)			
IV. Expenses: Cost of materials consumed Purchases of stock-in-trade Changes in inventories of finished goods Work-in-progress and stock-in-trade Employees benefits expenses Finance costs Depreciation and amortization expenses Other expenses Total expenses			
V. Profit before exceptional and extraordinary items and tax (III-IV)			
VI. Exceptional items			
VII. Profit before extraordinary items and tax (V-VI)			
VIII. Extraordinary items			
IX. Profit before tax (VII-VIII)			
X. Tax expenses: (1) Current tax (2) Deferred tax XI. Profit (Loss) for the period from continuing operations (VII-VIII)			
XI. Profit (Loss) from discontinuing operations			
XII. Tax expense of discontinuing operations			

XIII. Profit (Loss) from discontinuing operations (after tax) (XII-XIII)			
XIV. Profit (Loss) for the period (XI-XIV)			
XV. Earnings per equity share: **(1) Basic** **(2) Diluted**			

Remember: Under Revised Schedule VI detail under each classification should be disclosed in the *Notes to Accounts* giving reference number in the Balance Sheet and Statement of Profit and Loss.

<u>Comparative Income statement :(4 Marks)</u>

Particular	P.Y amount	C.Y. amount	Change in amount	Change in Percentage
Gross sales Less: Sales return	Xxx xxx	Xxx Xxx	C.Y –P.Y.	$\frac{C.Y-P.Y}{P.Y.}$ X 100
Net Sales Less: C.O.G.S.	Xxx xxx	Xxx Xxx	do	do
Gross Profit Less: Indirect Expenses/ Operating expense	Xxx xxx	Xxx xxx	do	do
Operating Profit Add: Non-operating income Less: non-operating expenses	Xxx Xxx xxx	Xxx Xxx xxx	do	do
Profit before tax Less: tax	Xxx xxx	Xxx xxx	do	do
Profit after tax	xxx	xxx	do	do

2. Comparative Balance Sheet: - (4 Marks)

Particular	P.Y. amount	C.Y. Amount	Change in amount	Change in Percentage
1. Share Capital	xxx	Xxx	C.Y –P.Y	$\frac{C.Y-P.Y}{P.Y.}$ X 100
2. Reserve and surplus	Xxx	xxx	do	do
3.Secured loan	Xxx	xxx	do	do
4. Unsecured Loan	Xxx	Xxx	do	do
5. Current liabilities & Provision	Xxx	Xxx	do	do
Total	Xxx	Xxx	C.Y –P.Y	$\frac{C.Y-P.Y}{P.Y.}$ X 100
1. Fixed Assets	Xxx	Xxx	do	do
2. Investments	Xxx	Xxx	do	do

3. Current assets and Loans & Advances	Xxx	Xxx	do	do
4. Miscellaneous Expenditure	Xxx	Xxx	do	do
5. P&L(Debit balance)	Xxx	Xxx	do	do
Total	xxx	Xxx	C.Y –P.Y	$\frac{\text{C.Y-P.Y}}{\text{P.Y.}} \times 100$

- Common Size Statements: In common size statements every item of the statement is presented in the form of percentage of its important heading i.e Net Sales(in case of Common Size income Statement) and Total of Assests and Liabilities(in case of Common Size Balance Sheets)

1. Common Size Income statement: (4 Marks)

Particular	P.Y amt.	C.Y. amt.	Percentage of Net sales in P.Y.	Percentage of Net sales in C.Y.
Gross sales Less: Sales return	Xxx xxx	Xxx Xxx	P.Y. Amount / P.Y. net sales X 100	C.Y. Amount / C.Y. net sales X 100
Net Sales Less: C.O.G.S.	Xxx xxx	Xxx Xxx	100% P.Y. Amount / P.Y. net sales X 100	100% C.Y. Amount / C.Y. net sales X 100
Gross Profit Less: Indirect Expense/ Operating expense	Xxx xxx	Xxx xxx	do	do
Operating Profit Add: Non-operating income Less: non-operating expenses	Xxx Xxx xxx	Xxx Xxx xxx	do	do
Profit before tax Less: tax	Xxx xxx	Xxx xxx	do	do
Profit after tax	xxx	xxx	do	do

2. Common Size Balance Sheet:- (4 Marks)

Particular	P.Y. amount	C.Y. Amount	% of total in P.Y.	% of total in C.Y.
1. Share Capital	xxx	Xxx	P.Y amount / Total of P.Y. X 100	C.Y. amount / Total of C.Y. X 100
2. Reserve and surplus	Xxx	xxx	do	do
3.Secured loan	Xxx	xxx	do	do
4. Unsecured Loan	Xxx	Xxx	do	do
5. Current liabilities & Provision	Xxx	Xxx	do	do
Total	Xxx	Xxx	100 %	100%
1. Fixed Assets	Xxx	Xxx	P.Y amount / Total of P.Y. X 100	C.Y. amount / Total of C.Y. X 100
2. Investments	Xxx	Xxx	do	do
3. Current assets and Loans & Advances	Xxx	Xxx	do	do
4. Miscellaneous Expenditure	Xxx	Xxx	do	do
5. P&L(Debit balance)	Xxx	Xxx	do	do

Total	xxx	Xxx	100%	100%

QUESTIONS: 01 MARKS

1. How would you show the following two items in a company's Balance Sheet as at 31st March, 2012 as per the requirement of Schedule VI:
General Reserve(Since 31st March, 2011) Rs. 3,00,000, Statement of Profit and Loss(Debit Balance) for 2011-12 Rs. 2,00,000.

Ans. Balance Sheet
As at 31st march, 2012

Equity and Liablities	Note No.	Rs.
Shareholders' fund Reserve and Surplus	1	1,00,000

Notes to Accounts:
Reserve and Surplus

General Reserve(1st April, 2011)	3,00,000
Less: Statement of Profit and Loss(Dr. Balance)	2,00,000
	1,00,000

2. Under Which main headings and sub-headings of Equity and Liabilities of the balance sheet as per the Revised Schedule VI of a company will you classify the following items:
   i. Proposed dividend.
   ii. Fixed Deposit from Public.

Ans.

Sr. No.	Items	Main-Heading	Sub-Heading
i.	Proposed dividend	Current-Liabilities	short-term provision
ii.	Fixed deposit from Public	non-current liabilities	long term borrowing

3. State any two items which are shown under the head 'Investment' in a company balance sheet. (1)

Ans. (i) Government Securities.
(ii) Sinking Fund Investment.

4. How is analysis of Financial statements suffered from the limitation of window dressing ? (1)

Ans. Analysis of financial statements is affected from the limitation of window dressing as companies hide Some vital information or show items at incorrect value to portray better profitability and financial Position of the business, for example the company may overvalue closing stock to show higher profits.

5. What is the interest of Shareholders in the analysis of Financial Statements? (1)

Ans. (i) They want to judge the present and future earning capacity of the business.
(ii) They want to judge the safety of their investment.

6. Name two tools of Financial Analysis? (1)

Ans. (i) Comparative Financial Statements.
(ii) Ratio Analysis etc.

7. What is Horizontal Analysis? (1)

Ans:The analysis which is made to review and compare the financial statements of two or more then two Years is called Horizontal Analysis.

8. Give the example of Horizontal Analysis. (1)

Ans. Comparative Financial Statement.

9. What is Vertical Analysis? (1)

Ans:11 The Analysis which is made to review the financial statements of one particular year only is called Vertical Analysis.

10. Give the example of Vertical Analysis? (1)

Ans. Ratio Analysis.

QUESTIONS 03 MARKS

1. Give the Main Heading and Sub- Heading of Equity and Liabilities of the Balance sheet of a company as per the Revised Schedule VI of the companies Act.1956.

Ans.

2. EQUITY AND LIABILITIES **(5) Shareholders' Funds** **(d) Share Capital** **(e) Reserves and Surplus** **(f) Money received against share warrants** **(6) Share Applications Money Pending Allotment** **(7) Non-Current Liabilities** **(e) Long-term borrowings** **(f) Deferred tax liabilities(Net)** **(g) Other Long-term Liabilities** **(h) Long-term provisions** **(8) Current Liabilities** **(e) Short-term borrowings** **(f) Trade payables** **(g) Other current liabilities** **(h) Short-term provisions**
TOTAL

3. Give the Main Heading and Sub- Heading of Assets of the Balance sheet of a company as per the Revised Schedule VI of the companies Act.1956.

Ans. **ASSETS**

(1) Non-Current Assets

(a) Fixed Assets

i. Tangible Assets
ii. Intangible assets
iii. Capital work-in progress
iv. Intangible assets under development

(b) Non-current investments
(c) Deferred tax assets (net)
(d) Long-term loans and advances
(e) Other non-current assets
(2) Current Assets
(a) Current investments
(b) Inventories
(c) Trade receivables
(d) Cash and cash equivalents
(e) Short-term loans and advances
(f) **Other current assets**

4. Rearrange the following items under assets according to Revised or New Schedule VI:
   a. Livestock
   b. Loose Tools.
   c. Goodwill
   d. Trademarks
   e. Bills Receivable
   f. Debtors
   g. Land
   h. Leasehold
   i. Stock-in-Trade
   j. Stores and Spare Parts
   k. Vehicles
   l. Cash at Bank
   m. Work in Progress(Machinery)
   n. Interest accrued on Investment
   o. Furniture
   p. Advance to Subsidiaries
   q. Cash in Hand
   r. Plant
   s. Deposits with electricity supply company.

Ans.
i. Fixed Assets(Tangible): Livestock, Land, Leasehold, furniture, vehicles and plant
ii. Capital Work-in-progress: Work in progress(Machinery)
iii. Fixed Assets(Intangible): Goodwill and Trademarks
iv. Inventories: Loose Tools, Stock-in-Trade, Stores and Spare Parts.
v. Trade Receivables: Bill Receivables, Debtors
vi. Cash and Cash Equivalents: Cash at Bank, Cash in Hand
vii. Long term Loans and Advances: Advance to Subsidiaries, Deposits with Electricity Supply Company.
viii. Other Current Assets: Interest Accrued on Investments.

4. List any three items that can be shown as contingent Liabilities in a company's Balance sheet.

Ans: (i) Claims against the Company not acknowledged as debts.
(ii) Uncalled Liability on partly paid shares.
(iii)Arrears of Dividend on Cumulative preference shares.

5. How is a Company's balance sheet different from that of a Partnership firm? Give Two point only

Ans. (i) For company's Balance Sheet there are two standard forms prescribed under the companies Act.1956 .Whereas, there is no standard form prescribed under the Indian partnership Act,1932 for a partnership Firms balance sheet.

(ii) In case of a company's Balance sheet previous year's figures are required to be given whereas it is not so in the case of a partnership firms balance sheet.

QUESTIONS 04 MARKS

1. Prepare Comparative and Common Size income statement from the following information for the year's ended march 31, 2008 and 2009.

Particulars	2008(Rs.)	2009(Rs.)
1.Net Sales 2.Cost of Goods Sold 3.Indirect Expenses 4.Income Tax rate	8,00,000 60% of sales 10% of Gross profit 50%	10,00,000 60% of sales 10% of Gross Profit 60%

Ans.1.a

Comparative Income statement:

Particular	2008 amount	2009 amount	Change in amount	Change in Percentage
Net Sales Less: C.O.G.S.	8,00,000 4,80,000	10,00,000 6,00,000	2,00,000 1,20,000	25% 25%
Gross Profit Less: Indirect Expenses	3,20,000 32,000	4,00,000 40,000	80,000 8,000	25% 25%
Operating Profit/ PBT Less: tax	2,88,000 1,44,000	3,60,000 2,16,000	72,000 72,000	25% 50%
Profit after tax	1,44,.000	1,44,000	----------	------------

Common Size Income statement

Particular	2008 amount	2009 amount	Percentage of Net sales in P.Y.	Percentage of Net sales in C.Y.
Net Sales Less: C.O.G.S.	8,00,000 4,80,000	10,00,000 6,00,000	100% 60%	100% 60%
Gross Profit Less: IndirectExpenses	3,20,000 32,000	4,00,000 40,000	40% 4%	40% 4%
Operating Profit/ PBT Less: tax	2,88,000 1,44,000	3,60,000 2,16,000	36% 18%	36% 21.6%
Profit after tax	1,44,.000	1,44,000	18%	14.4%

RATIO AND ANALYSIS

Learning outcomes:

- Explain the meaning of accounting ratios.
- Understand the objectives and limitation of accounting ratios.
- Classify the ratios as profitability, activity and solvency.
- Compute various profitability, activity and solvency ratios.
- Express your views about the operational efficiency and financial soundness of the company.
- Comment upon the performance of the enterprise.
- Recommend financial measures to be adopted to strengthen financial structure of the company

IMPORTANT FORMULAE OF RATIO ANALYSIS

Profitability ratio

1. Gross Profit Ratio = Gross profit/Net sales*100 {gross profit=Net sales- cost of goods sold}
2. (a) Net profit ratio= Net Profit/Net sales*100 {Net Profit=Gross profit+operating and non operatingincome-operating and non operating expenses.}
   (b)Operating Net profit ratio =Operating Net profit/Net sales*10

3 Operating Ratio= $\frac{\text{(Cost of goods sold + Operating expenses)}}{\text{Net Sales}}$ x 100

4 Return on investment (ROI)= $\frac{\text{Net Profit before interest,tax and dividend}}{\text{Capital Employed}}$ X 100

Capital employed= Share Capital+Undistributed profit+long term loans-
(fictitious assets like underwriting commission, preliminary expenses, discount or loss on issue of shares and non-operating assets like Investments).
or
Net fixed assets+Working capital

working capital= Current assets-current liabilties.

5 Earning per share= $\frac{\text{Net Profit-Preference dividend}}{\text{No.of Equity shares}}$

6 Dividend per share= $\frac{\text{Net Profit after interest, taxes and preference dividend}}{\text{Number of equity shares}}$

7 Price Earning Ratio= $\frac{\text{Market price of a share}}{\text{Earning per share}}$

(B) TURNOVER OR ACTIVITY OR PERFORMANCE RATIOS:

1 Working capital turnover ratio= $\frac{\text{Net Sales}}{\text{working capital}}$

Working Capital= Current assets- current Liabilities

3 Debtors turnover ratio= $\frac{\text{Net credit sales}}{\text{Average Debtors}}$

Average Debtors= $\frac{\text{Debtorsin the beginning+Debtors at the end}}{2}$

Receivables= Debtors+Bills receivable

4 Payable turnover ratio= $\frac{\text{Net credit purchases}}{\text{Account Payable}}$

5 Fixed Assets Turnover ratio= $\frac{\text{Sales or cost of goods sold}}{\text{Net fixed assets}}$

6 Current assets Turnover Ratio= $\frac{\text{Net sales or cost of goods sold}}{\text{current Assets}}$

LIQUIDITY RATIOS:

1 Current ratio= $\frac{\text{current Assets}}{\text{current liabilities}}$

2 Liquid or quick or acid test ratio= $\frac{\text{liquid assets}}{\text{current liabilities}}$

Solvency ratios

1 Debt to equity ratio= $\frac{\text{Long term loans}}{\text{Shareholder's funds}}$

2 Total assets to debt ratio= $\frac{\text{Total assets}}{\text{Long term debts}}$

3 Proprietory ratio= $\frac{\text{Proprietors fund or shareholders fund}}{\text{Total Assets}}$

4 Current asset turnover ratio= $\frac{\text{Net sales/cost of goods sold}}{\text{current assets}}$

5 Fixed assets turnover rqatio= $\frac{\text{Net sales}}{\text{Net fixed assets}}$

Ratio Analysis

Questions for 1 mark

1) X Ltd has a debt Equity Ratio at 3:1. According to the Management, it should be maintained at 1;1. What are the two choices to do so ?

Ans : The Two choices to maintain Debt Equity ratio at 1:1 are:

a) To increase the Equity

b) To reduce the debt

2) Assuming that the Debt equity ratio is 1:2, state giving reason whether the ratio will improve, decline or will have no change if equity shares are issued for cash.

Ans It will decrease the ratio as Equity increases without change in the debt.

3) State the satisfactory ratio of Current ratio and Liquid Ratio

Ans The Standard Current ratio is 2:1 whereas Ideal Liquid ratio is 1:1.

4) Current ratio of a firm is 2:1. State whether 'Purchase of goods for cash" will improve, decrease or will not have any change in the ratio

Ans. It will not change the ratio as stock increases and cash decreases.

5) Define "ratio Analysis"

Ans Ratio Analysis refers to the process of computing, determining and explaining the relationship between the component items of financial statements in terms of ratios.

2-3 MKS

6) A company has a current ratio of 4:1 and Quick ratio is 2.5;1. Assuming that the inventories are Rs 22500, find out total current assets and current liabilities.

Ans Current ratio ---4:1
Quick ratio ---2.5:1
Inventory =4-2.5=1.5
If inventory is 1.5, then Current assets =4
If inventory = 22500, then current assets = 4X 22500/1.5 =60,000
Current Liabilities = 60,000/4 = Rs 15000.

7) From the following, calculate stock turnover ratio—
Net Sales –Rs 2,00,000 Gross Profit = 25% Opening stock = 5000
Closing stock : 15000

Ans – Stock Turnover ratio = Cost of goods sold/Average stock
Cost of sales= sales-gross profit
Cost of sales = 2,00,000 – 50,000 = 1,50,000

$$\text{Average stock} = \frac{\text{Opening stock + closing stock}}{2} = 20,000/2 = 10,000$$

1,50,000/10,000 = 15 times.

8) Calculate Gross profit and sales—
Average stock = Rs 80,000
Stock turnover ratio = 6 times
Selling price = 25% above cost

Ans. Stock Turnover ratio = cost of sales/average stock
6 = cost of sales/80,000
Cost of sales = 80,000X 6 = 4,80,000
Gross profit = 4,80,000 X 25/100 = 1,20,000
Sales = Cost of sales + Gross Profit
4,80,000 + 1,20,000 = Rs 6,00,000

9) _A Company made credit sales of Rs 7,20,000 during the year. If the collection period is 50 days and the year is assumed to be of 360 days. Calculate –

a) Average Debtors b) Debtors Turnover ratio c)Opening and Closing Debtors if the closing Debtors are Rs 10,000 more than the opening Debtors.

Ans Credit sales per day = 7,20,000/360 = Rs 2000 per day.
Average Debtors = 2000 X 50 days = Rs 1,00,000
Debtors Turnover ratio = Net credit sales/Average Debtors
= 7,20,000/1,00,000 = 7.2 times.
Let the Opening Debtors be "x"
Closing Debtors = "x + 10,000"
Total Debtors = x + x + 10,000 = 2,00,000
= 2x+ 10,000 = 2,00,000
= 2x = 1,90,000
x = 95,000 (Opening Debtors = 95000)
Closing Debtors = 95000 + 10000 = Rs 1,05,000

10) Calculate Operating ratio—

	Rs
Net Sales =	5,40,000
Net Purchases	3,10,000
Opening Stock	75,000
Direct expenses	32,000
Closing Stock	50,000
Selling expenses	25,000
Distribution expenses	15,000

Operating ratio = Cost of sales +Operating expenses/Net sales *100
Cost of sales = Opening stock + Net purchases + direct expenses-closing stock
= 75000+3,10,000+32,000-50,000 = 3,67,000
Operating expenses = Selling expenses + Distribution expenses
= 25000+15000 = 40,000
Operating ratio = 3,67,000+40,000/5,40,000 X 100 = 75.37%

11) Net profit after Interest but before tax Rs 1,40,000
15% Long term debt : Rs 4,00,000
Shareholders fund : Rs 2,40,000
Tax rate : 50% , Calculate Return on capital employed.
Return on capital employed = Net profit before interest and tax/Capital employed X 100
Interest on long term debt = 15/100 X 4,00,000
= 60,000
Net Profit before Interest = 1,40,000 + 60,000 = 2,00,000
Capital employed = Debt + Shareholders fund
= 4,00,000 + 2,40,000 = 6,40,000
Return on Capital employed = 2,00,000/6,40,000 X 100 = 31.25%

12) Calculate Inventory Turnover Ratio—
Sales = Rs 4,00,000 Average stock – Rs 55,000 Gross Loss ratio =10%
Inventory Turnover ratio = Cost of sales/Average stock
=4,40,000/55000 = 8 times .

13) Calculate Fixed Assets turnover ratio-
Cost of goods sold : Rs 16,80,000
Gross profit = Rs 5,60,000
Capital employed = Rs43,00,000
Working capital = Rs 80,000

Fixed assets turnover ratio = Net sales/ Net fixed assets
Net sales = Cost of goods sold + Gross profit
= 16,80,000 + 5,60,000
= 22,40,000
Capital employed = Net fixed assets + Net working Capital
4,00,000 = Net Fixed assets + 80,000
Net Fixed assets = 3,20,000
Fixed assets turnover ratio = 22,40,000/3,20,000 = 7 times

14) Calculate Current Asset Turnover ratio if –

Cost of goods sold = Rs 7,50,000
Gross profit = Rs 2,10,000
Total Assets = Rs 3,00,00
Capital employed = Rs 3,00,000
Working capital Rs 60,000

Current Assets Turnover ratio = Net Sales/ Net Current assets
Net sales = Cost of sales + Gross Profit
= 7,50,000 + 2,10,000
= 9,60,000
Capital Employed = Net Fixed +Net Working Capital
Net Fixed Assets = Capital employed – Net working Capital
= 3,00,000 – 60,000
= 2,40,000.
Total Assets = Rs 3,00,000
Current Assets = Total assets – Fixed assets
= 3,00,000 – 2,40,000
= 60,000
Current Assets turnover ratio = Net Sales/Net current Assets
= 9,60,000/60,000 = 16 times.

15) From the following information calculate =
a) Debt equity ratio b) Total Assets to Debt ratio c) Proprietory ratio

Equity share capital = Rs 20,00,000
Reserves and Surplus = Rs 12,00,000
12% Debentures = Rs 10,00,000
Bank Loan = Rs 8,00,000
Current Liabilities = Rs 5,00,000
Fixed Assets = Rs 25,00,000
Goodwill = Rs 4,00,000
Current Assets = Rs 18,00,000

a) Debt Equity Ratio = Debt/Equity
Debt = 12% Debentures + Bank Loan
= 10,00,000 + 8,00,000
= 18,00,000
Equity = Equity share capital + Reserves and Surplus
= 20,00,000+12,00,000
= Rs 32,00,000
Debt / Equity = 18,00,000/32,00,000 = 0.56:1

b) Total Assets to Debt ratio = Total Assets/Long term Debt
Total Assets = Fixed assets + Goodwill + Current assets
= 25,00,000 + 4,00,000 + 18,00,000
=Rs 47,00,000
Long Term Debt = 12% Debentures + Bank Loan
= 18,00,000
Total Assets to Debt Ratio = 47,00,000/18,00,000 = 2.6:1

c) Proprietory Ratio = Equity/Total Assets
= 32,00,000/47,00,000 = 0.68 or 68%